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JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 21B
June 5, 1992

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Poor Profits Slow Start Of New Economic Plan

An advisory panel to Prime Minister Kiichi Miyazawa projected at the end of May that Japan's gross national product will expand 3.5 percent a year between FY 1992 and FY 1996 after adjusting for inflation. Given the economy's excellent track record, this forecast at first glance might seem conservative. The growing number of domestic firms reporting reduced profits for the first quarter of this year and all of FY 1991, however, shows that the projection may not be too far out of line.

The Economic Council laid out May 29 the basic outlines of its five-year economic outlook in preparation for submitting a detailed report later in June. The panel of top business leaders and academics scaled back from the previous outlook most growth figures for the five years ending March 31, 1997 (see Table). Of particular interest are the council's expectations for the balance between domestic and external demand. In the previous FY 1988-FY 1992 plan domestic demand was projected to account for 4.25 percent of total real growth, while external demand was expected to reduce growth by 0.5 percentage point, yielding a final demand figure of 3.75 percent. In the new outlook demand from overseas markets is expected to reduce net GNP growth by only 0.25 point. It is interesting to note that of the council's projections for the FY 1988-FY 1992 period, only the one for external demand was right on the money.

As for price stability the council's new plan is less optimistic than the old one. Inflation at both the wholesale and the consumer levels is pegged at levels higher than in the previous plan. The

Economic Council's Five-Year Economic Projection

(annual averages)

	New Plan FY 1992-FY 1996	Previous Plan FY 1988-FY 1992	Actual Performance
Change in Real GNP	3.5%	3.75%	5.4%*
of which: Domestic Demand	3.75	4.25	5.9*
Change in Nominal GNP	5.0	4.75	7.0*
Consumer Price Index	2.0	1.5	2.4**
Wholesale Price Index	0.25	0.0	0.9**
Unemployment Rate	2.25	2.5	2.1***

*FY 1988-FY 1990
**FY 1988-FY 1991
***FY 1991

Source: Economic Council

relatively poor match between the previous outlook's projections and actual inflation prompted the advisory body to up its forecast on prices. At the same time, though, the council cut its unemployment prediction compared to the previous outlook. That might reflect the expected gradual shrinking of the country's working-age population starting about 1995, but the revision also could reflect optimism on the economy.

One factor explaining why the economy surpassed the council's real growth forecast for the FY 1988-FY 1992 period was exceptionally strong corporate spending on plant and equipment. Private capital spending is tied directly to corporate profitability, a point being driven home by recent announcements of company financial results for FY 1991. Spokesmen for practically every publicly traded company that closes its books March 31 blamed the economic slowdown at home and abroad for the erosion of sales and profits while noting scaled-back plans for plant and equipment investment.

Among selected financial results were:

- Six of the 11 Japanese motor vehicle makers reported lower pretax and net profits for FY 1991, despite some sales gains. Mazda Motor Corp. posted the largest drop in net profits (-65.7 percent), followed by Nissan Diesel Motor Co., Ltd. (-53.8 percent), Daihatsu Motor Co., Ltd. (-47.9 percent), Hino Motors, Ltd. (-41.4 percent), Nissan Motor Co., Ltd. (-30.7 percent) and Honda Motor Co., Ltd. (-30.2 percent). Of those motor vehicle makers reporting March 31 results, only Mitsubishi Motors Corp. posted sales and profit gains (10.4 percent and 7.2 percent, respectively).

- Japan's five integrated steel companies, hurt by the slowdown in the automotive and construction industries, reported only small changes in sales but big changes in pretax and net profits. While pretax profits were off 15.5 percent to 46.5 percent among the five firms, three with diversified business operations reported net profit gains of 24.7 percent (Kobe Steel Co., Ltd.) to 53.8 percent (NKK Corp.).

- The top six trading companies cited lower trading volumes, the yen's appreciation against the dollar and lower crude oil prices as the main reasons for declines in both sales and profits. Sales were off by 0.4 percent to 17.2 percent, while net profit declines ranged from 18.7 percent (Nissho Iwai Corp.) to 67 percent (Marubeni Corp.).

- Shipbuilders were a rare bright spot in the profit picture, capitalizing on resurgent orders for bottoms but hurt by diversified operations. Hitachi Zosen Corp., for example, will pay its first dividend in seven years thanks to orders for large tankers and waste carriers. Mitsui Engineering & Shipbuilding Co., Ltd. was the lone company in the group to report a net profit drop, mainly because it covered the bad loans of its financial subsidiary.

- Five of seven big chemical producers reported sharp drops in profits (36.4 percent to 71.2 percent) for FY 1991 because of intense price competition in plastics and weak demand for cars, appliances and construction materials.

- The domestic economic slowdown directly affected foreign travel and airfreight loads to the detriment of airline profits. On an unconsolidated basis Japan Airlines Co., Ltd. reported lower revenues from international passenger and cargo flights as well as domestic freight. A 5.6 percent gain for domestic passenger travel was not enough to prevent pretax and net losses for the fiscal year. All Nippon Airways Co., Ltd. posted pretax and net losses, while Japan Air System Co., Ltd. reported a pretax loss but a net profit gain.

- While Nippon Telegraph and Telephone Corp., a former government monopoly, reported profit declines (see note in this issue), two of the three "new" domestic common carriers, DDI Corp. and Japan Telecom Inc., reported double-digit jumps in revenues and profits. The third, Teleway Japan Corp., remained in the red for the second year in a row.

- The banking sector's profit picture was uniformly gloomy (see *JEI Report* No. 17B, May 1, 1992). The 11 nationwide commercial banks as a group reported a 14 percent fall in pretax profits mainly due to a 51.2 percent plunge in the value of their stock assets. The three long-term credit banks and seven trust banks also blamed the stock market slump for sharply lower profits.

- While operating revenues generally were up for six top consumer credit firms, their net profits were lower after they boosted reserves for bad loans in anticipation of problems linked to the end of stock and real estate speculation.

- Securities brokers reported dismal revenue and profit figures due to stagnant equities trading as well as fines and suit settlements resulting from ethically questionable trading practices.

The cumulative effect of these negative profit reports is expected to depress business investment over the near term. In turn, the expected poor performance of this pillar of growth is projecting a cloud over the economy's prospects for FY 1992. Not all government ministries or forecasters expect a poor showing, however. The Economic Planning Agency continues to make positive statements that the recession is bottoming out. Conversely, the Ministry of International Trade and Industry recently told the Japanese press that the earliest advent of an upturn most likely will be at the end of this calendar year. If the pessimists are correct, the drive to achieve the Economic Council's newest five-year plan will be off to a slow start.

Jon Choy

U.N. Peacekeeping Support Bill Appears Headed For Passage

Winding up nearly six months of often contentious discussions with leading opposition party members, Prime Minister Kiichi Miyazawa appeared likely during the first week of June to secure upper house passage of legislation that would allow Japanese military personnel to participate in United Nations-sponsored peacekeeping activities. The victory may be somewhat bittersweet, however, because of back-bending concessions by the ruling Liberal Democratic Party — concessions that analysts say will render the legislation all but toothless. The United States and other allies that